Tax

Expenditure Report

2013-14

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Introduction

The Department of Finance has been required to provide a tax expenditure report to the Legislature since 1971. Chapter 1762, Statutes of 1971, required that a biennial report be submitted to the Legislature. Chapter 268, Statutes of 1984, increased the reporting frequency from once every two years to once a year. Chapter 49, Statutes of 2006, required the report to include each of the following:

- A comprehensive list of tax expenditures exceeding $5 million.
- The statutory authority for each provision.
- A description of the legislative intent of each, if specified in the enacting legislation.
- The sunset date of each provision.
- The beneficiaries of the provision.

An estimate of the state and local revenue loss for the current and two subsequent fiscal years.

For personal income tax expenditures, the number of taxpayers and returns affected for the most recent tax year.

For corporation and sales tax expenditures, the number of returns or businesses affected for the most recent year for which data is available.

A listing of any comparable federal benefit.

A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last tax expenditure report by the Department of Finance.

This report fulfills the Department's statutory requirement pursuant to Government Code Section 13305. The narrative descriptions and revenue estimates for the tax expenditures included in this report are based on state laws for these tax expenditures as of June 30, 2013.

Definitions

There is no absolute rule for defining tax expenditures, and the concept of a "tax expenditure"
can be defined in several different ways. Section 13305 defines tax expenditure as "a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state."

Although broad, this definition does exclude several provisions of the tax law from classification as tax expenditures.

Because the basic structure of each tax is used as the starting point for determining what constitutes a tax expenditure, elements of the basic tax structure that exempt certain groups are not considered tax expenditures. For example, the sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. According to its basic definition, California's sales tax does not apply to sales or leases of real property, sales of services, wholesale transactions, or sales of securities and insurance. These exemptions are therefore not considered tax expenditures.

The net operating loss (NOL) deduction levels the playing field for firms with volatile and steady income, and is also not considered a tax expenditure for this report. For example, consider two firms, one with a $100 loss in year one and a $300 gain in year two, the second with a $100 gain in each year. Without a NOL deduction, over the two years, the first firm would report $300 taxable income, while the second would report $200, even though each had $200 net income.

Across-the-board tax rate reductions do not represent tax expenditures. Tax expenditures resulting from changes in the rate structure only exist if different sets of rates are applied to a similar base.

Progressive rate structures do not constitute tax expenditures. The basic structure of California's income tax is progressive. For that reason, application of different tax rates to different income levels is a basic characteristic of the tax and does not represent a tax expenditure.

Exemptions or exclusions required by the U.S. Constitution, the California Constitution, or federal laws are not considered tax expenditures.

Changes in tax law that alter penalties or interest or that accelerate or defer tax payments are generally not considered tax expenditures unless they are very narrowly targeted.

However, the definition of "tax expenditure" is subject to debate, and there is no single rule for determining what constitutes an element of the basic tax structure. For this reason, this report may exclude items that are included in other tax expenditure reports and vice versa.

Tax expenditures that have expired even though carry forwards from old credits can still be used, such as the Joint Strike Fighter Wages Credit, are not included in this report.

Why Adopt Tax Expenditures

Tax expenditures may be classified into the following four broad groups:

- Those which conform California tax law to federal provisions.
- Those intended to remove perceived inequities in the basic tax structure.
- Those intended to ease tax administration.
- Those which grant targeted tax reductions through exemptions, credits, deductions, or exclusions.

There are several differences between tax expenditures and direct expenditures (those authorized through the budget process). First, tax expenditures are reviewed less frequently than direct expenditures once they are in place. This can offer taxpayers more certainty than if tax expenditures were subject to annual review, but can also result in tax expenditures remaining in the tax code long after outliving usefulness.

In general, there is also no control over the amount of foregone revenue that results from a tax expenditure once that provision has become part of the tax code. Finally, the vote requirements for tax expenditures and direct expenditures may be different. Tax expenditures that are adopted legislatively (except those adopted as urgency measures) require approval by a simple majority of both houses of the Legislature. A two-thirds vote is required for General Fund appropriations outside the Budget.

Revenue Estimates

The estimates listed in this report are intended as a general indication of revenue losses from tax expenditure programs. In general, revenue estimates for the Personal Income Tax and Corporation Tax Laws are easier to quantify than those for the Sales and Use Tax Law. Personal income and corporation tax returns contain significant detail regarding different sources of income and types of exemptions, exclusions, deductions, and credits claimed. Thus, tax return data are often available when estimating the fiscal impact of various income and corporation tax expenditure programs. In contrast, returns filed by taxpayers under the Sales and Use Tax Law contain little specific information regarding items purchased from individual retailers. For this reason, independent data sources must be used when estimating the revenue impacts of various sales tax expenditure programs, and these estimates can be less precise than those for the Personal Income Tax and Corporation Tax Laws.

In addition, certain estimates under all of the tax laws for which tax expenditure costs are cited can be subject to significant margins of error due to data limitations. Other factors complicating this report's estimates include the effects of tax law interactions and taxpayer reactions to changes in tax law. For example, a change in tax law could lead to economic activity that would not have occurred without the tax expenditure. These revenue estimates reflect direct behavioral changes, but keep economic aggregates unchanged. Therefore, while the report displays the total value of the major identified expenditures within each major tax, these figures are best viewed as illustrative only. The fiscal impact of individual tax expenditures cannot be summed to generate the total fiscal impact of all tax expenditures due to the complicating factors of tax law interactions and taxpayer behavioral responses.

With the exception of the deduction for charitable contributions, the revenue loss for tax expenditures that are included in both Corporate and Personal Income Tax Laws are shown under the tax with the greatest revenue loss. For Subchapter S corporation treatment, the revenue gain under the personal income tax is netted against the loss for the corporation tax and the result is shown under the corporation tax.

State Revenue Losses

Personal Income Tax The Personal Income Tax Law includes the vast majority of all tax expenditure programs approved to date. It is estimated that tax expenditures will reduce 2013-14 Personal Income Tax General Fund revenues by more than $34 billion.

Sales and Use Tax The Sales and Use Tax Law contains separately identifiable state tax General Fund expenditures worth about $11 billion in 2013-14. Examples of these include food; prescription medicines; gas, electricity, and water delivered through mains; farm equipment; fuel sold to common carriers; and rental of linen supplies.

Corporation Tax Fiscal year 2013-14 General Fund tax expenditures in the corporation category amount to nearly $6 billion. Examples of these expenditures include provisions for research and development, interest on state and local government obligations, provisions for Single Sales Factor election, and provisions for water's edge election.

Other Taxes Remaining tax expenditure programs are estimated to reduce revenues by over $100 million annually. Much of this revenue loss results from aircraft jet fuel used by common carriers and the armed services, sales of cigarettes to governmental agencies, and diesel fuel used by transit districts and schools.

Local Revenue Losses

The revenue losses to local governments are also shown for the sales tax and the property tax. Property taxes are local taxes, and the legislative exemptions or preferential provisions do not constitute state tax expenditures. Nonetheless, they impact state finances because local tax exemptions reduce property tax allocations to schools. Under school finance law, the state is generally required to provide the difference in funding between local property tax allocations and school districts' revenue limits. Consequently, each dollar of property tax revenue foregone by schools results in additional state funding through the school apportionment process. Passage of Proposition 98 in November 1988 further impacts state school financing by establishing minimum funding levels for public schools and community colleges, based on both property taxes and state funding under what are known as the Test 2 and 3 formulas. However, under Test 1, property taxes allocated to schools and community colleges are not part of the guaranteed funding level.

Local government revenue losses from identifiable property tax exemptions are estimated to be in excess of $100 million, while losses from sales tax expenditures are estimated to be in the range of $10 billion.

Unidentifiable Revenue Loss Areas

It is not always possible to quantify the revenue loss of a particular tax expenditure. Fortunately, in most instances, those tax expenditures whose revenue impact cannot be estimated represent unique situations and probably do not result in significant revenue losses. Some examples of tax expenditures for which revenue losses cannot be quantified include sales tax exemptions for livestock and for meals furnished by institutions, and property tax exemptions for intangibles and air carrier ground time.

Legislative Intent

This report includes the legislative intent of the tax expenditure when that intent was specified in the enacting or amending legislation.

Other Tax Expenditure Reports

The Franchise Tax Board released the latest version of their report, California Income Tax Expenditures, Compendium of Individual Provisions: Report for 2009 Tax Year Data, covering personal income tax and corporation tax expenditures in June 2012. This report can be accessed on the Internet at ***www.ftb.ca.gov*** under “About Us” in “Reports, Plans & Statistics.”

The Board of Equalization released the latest version of its Publication 61 Sales and Use Taxes: Exemptions and Exclusions in February of 2012. This report can be accessed on the Internet at ***www.boe.ca.gov*** in “Forms and Publications.”

TABLE 1

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Personal Income Tax					
	State General Fund Revenue Loss				
Provision	2011-12/e	2012-13/e	2013-14/e	2014-15/e	2015-16/e
Exclusion of employer contributions to health plans	4,500	4,800	5,000	5,500	5,500
Home mortgage interest deduction	4,100	4,200	4,400	4,600	4,800
Exclusion of employer pension contributions	3,400	3,400	3,400	3,800	4,300
Basis step-up on inherited property	3,300	3,300	3,200	3,500	3,800
Exclusion of capital gains on sale of a principal residence	3,200	3,300	3,000	3,200	3,300
Exclusion of social security benefits	2,400	2,500	2,500	2,500	2,600
Charitable contributions deduction/1	1,700	1,800	1,900	2,000	2,200
Real estate, personal property and other taxes deduction	1,620	1,730	1,840	1,950	2,160
Dependent exemption in excess of personal exemption credit	1,100	1,100	1,200	1,300	1,300
Employee business and miscellaneous expenses deduction	1,100	1,200	1,300	1,300	1,300
Exclusion of benefits provided under cafeteria plans	1,100	1,200	1,300	1,400	1,500
Exclusion of investment income on life insurance and annuity contracts	1,100	1,100	1,100	1,100	1,100
Head-of-household and qualifying widow(er) filing status	850	900	950	1,000	1,100
Contributions to self-employed retirement plans deduction	450	420	430	450	480
Contributions to IRAs deduction	410	500	600	700	750
Exclusion of unemployment insurance benefits	330	280	260	240	220
Medical and dental expenses deduction	320	360	400	480	600
Exclusion of miscellaneous fringe benefits	260	270	270	270	280
Deduction of health insurance paid by self-employed	250	300	320	340	360
Exemption for senior citizens	190	200	200	210	220
Exclusion of transportation-related fringe benefits	180	180	190	200	220
Exclusion of non-resident military pay	120	120	120	120	120
Renters' credit	110	110	110	110	110

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Personal Income Tax (cont.)	State General Fund Revenue Loss				
Provision	**2011-12[e]**	**2012-13[e]**	**2013-14[e]**	**2014-15[e]**	**2015-16[e]**
Exclusion of employer contributions to life insurance plans	95	110	110	120	120
Exclusion of scholarship/fellowship income	90	95	95	100	110
Exclusion for cancellation of mortgage debt	70	37	2	N/A	N/A
Exclusion of state lottery winnings	70	75	75	75	80
Exclusion of compensation for injuries or sickness	60	60	60	60	60
Exclusion of employee child care benefits	60	55	55	55	55
Exclusion of meals and lodgings furnished by non-military employers	55	60	65	75	80
Housing credit 2010: first-time buyer and new home credits	48	38	2	N/A	N/A
Exclusion of employer-provided educational assistance	47	50	49	50	51
Student loan interest deduction	47	49	49	50	50
Child and dependent care credit	36	38	40	43	45
Exclusion of housing for clergy	27	26	26	27	29
Moving expense deduction	26	28	30	31	33
Exclusion of income earned on Section 529 (Scholarshare) plans	25	29	32	38	42
Exclusion of foster care payment	15	15	14	14	14
Casualty losses deduction	15	16	16	17	17
Housing credit 2009 new home credit	10	N/A	N/A	N/A	N/A
Limited partnerships investment source rules	6	7	7	8	8
Exclusion of capital gains on small business stock[2]	N/A	N/A	N/A	N/A	N/A
Total	**$32,892**	**$34,058**	**$34,717**	**$37,033**	**$39,114**

[e]Estimated

[1]This includes only personal income tax amounts; corporate tax amounts are separately reported.

[2]This provision had resulted in expenditures of about $25 million a year. However, with the court decision in *Culter vs. Franchise Tax Board* the expenditure effectively goes to zero for all years. See a detailed discussion in the Descriptive Detail section.

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Corporation Tax

Provision	State General Fund Revenue Loss				
	2011-12[/e]	2012-13[/e]	2013-14[/e]	2014-15[/e]	2015-16[/e]
Research and development credit[/1]	2,200	2,200	2,100	2,200	2,300
Single Sales Factor election	900	850	500	460	480
Water's edge election	850	950	1,000	1,000	1,100
Enterprise zones and similar areas[/1]	850	850	800	600	400
Like-kind exchanges[/1]	270	360	410	470	460
Subchapter S corporations	270	230	200	180	160
Double-weighted sales factor	260	160	17	N/A	N/A
Tax-exempt status for qualifying corporations	160	170	180	180	190
Accelerated depreciation of research and experimental costs[/1]	110	130	150	170	180
Charitable contributions deduction[/2]	100	100	100	100	100
Film credit[/1]	95	120	100	95	95
Low-income housing credit[/1]	70	70	70	75	75
Hiring credit[/1]	31	39	34	23	16
Employee stock ownership plans[/1]	27	26	29	30	33
Percentage depletion of mineral and other natural resources	22	22	24	25	25
Credit union treatment	18	20	26	32	36
Expensing of timber growing costs[/1]	7	7	7	7	7
Reforestation[/1]	7	6	6	6	6
Total	**$6,247**	**$6,310**	**$5,753**	**$5,653**	**$5,663**

[e/] Estimated
[1/] This item includes personal income tax amounts.
[2/] This includes only corporate tax amounts; personal income tax amounts are separately reported.

TABLE 3

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Sales and Use Taxes	2011-12 Revenue Loss			2012-13 Revenue Loss			2013-14 Revenue Loss			2014-15 Revenue Loss			2015-16 Revenue Loss		
Provision	State General Fund 3.9375	Local* 3.9325	State Fiscal Recovery Fund .25%	State General Fund 4.0625%	Local* 3.9425%	State Fiscal Recovery Fund .25%	State General Fund 4.1875%	Local* 3.9425%	State Fiscal Recovery Fund .25%	State General Fund 4.1875%	Local* 3.9425%	State Fiscal Recovery Fund .25%	State General Fund 4.1875%	Local* 3.9425%	State Fiscal Recovery Fund .25%
Food products	3,720	3,715	236	3,980	3,862	245	4,368	4,113	261	4,659	4,387	278	4,924	4,636	294
Gas, electricity, and water	2,420	2,417	154	2,589	2,513	159	2,842	2,675	170	3,031	2,854	181	3,203	3,016	197
Prescription medicines	1,512	1,510	96	1,617	1,569	100	1,775	1,671	106	1,893	1,783	113	2,001	1,884	123
Animal life, feed, seeds, plants, fertilizer, drugs, and medicines	777	776	49	831	807	51	912	859	54	973	916	58	1,028	968	63
Candy, confectionery, snack foods, and bottled water	498	498	32	533	517	33	585	551	35	624	588	37	660	621	41
Custom computer programs	181	181	11	194	188	12	212	200	13	227	213	14	239	225	15
Fuel sold to common carriers	132	132	8	141	137	9	155	146	9	165	156	10	175	165	11
Farm equipment and machinery	129	N/A	8	138	N/A	9	152	N/A	9	162	N/A	10	171	N/A	11
Diesel fuel used in farming and processing	48	N/A	3	51	N/A	3	56	N/A	3	60	N/A	4	63	N/A	4
Water common carriers	38	38	2	41	40	3	45	42	1	48	45	3	51	48	3
Subscription periodicals	35	35	2	38	36	2	41	39	2	44	41	3	46	44	3
Rental of linen supplies	27	27	2	29	28	2	32	30	2	34	32	2	36	34	2
Teleproduction and post production equipment	13	N/A	1	14	N/A	1	16	N/A	1	17	N/A	1	18	N/A	1
Treatment of vending machine sales	13	13	1	14	14	1	15	14	1	16	15	1	17	16	1
Alternative Energy	11	11	1	12	11	1	13	12	1	14	13	1	14	14	1
Meals furnished by institutions	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Aircraft and component parts sales	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Leases of motion picture and television films and tapes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Motion picture production services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Printed advertising	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 9,554	$ 9,352	$ 607	$ 10,222	$ 9,722	$ 629	$ 11,219	$ 10,352	$ 668	$ 11,967	$ 11,042	$ 714	$ 12,646	$ 11,669	$ 770

*Rate includes 0.50 percent Local Revenue Fund, 0.50 percent Local Public Safety Fund, .75 percent Uniform Local Sales Tax, 0.25 percent county transportation, and 0.85 average county add-on for 2009-10, 0.86 for 2010-11, 0.87 for 2011-12, 0.88 for 2012-13 and future periods.

In addition in FY 2011-12 a new law established the Local 2011 Fund which allocated 1.0625% from the General Fund.

NOTE: List does not include "exclusions by definition" such as intangible personal property.

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Fuel and Cigarette Taxes

Provision	2011-12 Revenue Loss			2012-13 Revenue Loss			2013-14 Revenue Loss			2014-15 Revenue Loss			2015-16 Revenue Loss		
	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local	State General Fund	State Special Fund	Local
Fuel Tax															
Aircraft jet fuel used by common carriers and military	-	$75	-	-	$78	-	-	$83	-	-	$88	-	-	$93	-
Fuel used by transit districts and schools	-	$14	-	-	$14	-	-	$15	-	-	$16	-	-	$17	-
Total		**$89**			**$92**			**$98**			**$105**			**$111**	
Cigarette Tax															
Sales to government agencies	$2	$14	-	$2	$14	-	$2	$15	-	$2	$16	-	$2	$17	-

TABLE 5

Major Identifiable Tax Expenditures of $5 Million or More
(Dollars in Millions)

Property Tax

Provision	Local Revenue Loss 2011-12	2012-13	2013-14	2014-15	2015-16
Computer programs	NA*/	NA*/	NA*/	NA*/	NA*/
Fixtures excluded from the supplemental roll	$19	$19	$19	$19	$19

*/In excess of $100 million.

Personal Income Tax

Exclusion of Employer Contributions to Health Plans

Description:
Contributions by employers to provide accident and health benefits are excluded from the income of employees.

Statutory Authority:
Revenue and Taxation Code Section 17131 in conformity with Internal Revenue Code Section 106

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Home Mortgage Interest Deduction

Description:
Taxpayers may generally deduct a limited amount of interest paid or accrued within the taxable year for acquiring, constructing, substantially improving, or refinancing their principal and one other residence.

Statutory Authority:
Revenue and Taxation Code Section 17201 which conforms to Internal Revenue Code Section 163

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 4.5 million returns claimed a deduction for home mortgage interest expenses. This represented 7.3 million taxpayers.

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Employer Pension Contributions

Description:
Employer contributions to qualified retirement plans are generally excluded from employees' income, subject to annual limits.

Statutory Authority:
Revenue and Taxation Code Section 17501, which conforms to Internal Revenue Code Section 401

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
California generally conforms to federal law concerning employers' deductions for pension contributions.

Personal Income Tax

Basis Step-Up on Inherited Property

Description:
The basis of property acquired by bequest, devise, or inheritance is the fair market value at the date of death. Therefore, appreciation that occurred prior to the death is not taxed.

Statutory Authority:
Revenue and Taxation Code Sections 18031, 18035.6, 18036.6 in conformity with Internal Revenue Code Section 1014

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Capital Gains on Sale of a Principal Residence

Description:
An individual may exclude up to $250,000 of gain realized on the sale of a principal residence. For joint returns, the exclusion is $500,000.

Statutory Authority:
Revenue and Taxation Code Section 17131 and 17152 in conformity with Internal Revenue Code Section 121

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Social Security Benefits

Description:
Social Security and federal railroad retirement benefits are not subject to tax.

Statutory Authority:
Revenue and Taxation Code Section 17087

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For 2010, 1.5 million tax returns claimed this exclusion, which represented 2.4 million taxpayers.

Comparable Federal Benefit:
Under federal law, these benefits are partially taxed.

Personal Income Tax

Charitable Contribution Deduction

Description:
A deduction is allowed for cash or certain non-cash contributions to qualifying nonprofit or governmental entities. For personal income taxpayers, the deduction is only available to those who itemize their deductions. The deduction amount is limited depending upon the type of contribution and recipient, but in no case may exceed 50 percent of adjusted gross income. For corporate taxpayers, the limit is 10 percent of taxable income. Contributions in excess of these amounts may be carried forward for up to five years.

Statutory Authority:
Revenue and Taxation Code Sections 17201, 17275.5, 24357-24359.1 in conformity with Internal Revenue Code Section 170

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 4.7 million personal income tax returns claimed this deduction, representing 7.5 million taxpayers. This deduction was also claimed on 159,000 corporation tax returns.

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Real Estate, Personal Property, and Other Taxes Deduction

Description:
Individual taxpayers may deduct certain taxes as an itemized deduction. This includes property taxes, personal property taxes including vehicle license fees, one-half of self-employment taxes, and other state, local, and foreign taxes relating to a trade or business or property held for the production of income.

Statutory Authority:
Revenue and Taxation Code Sections 17201, 17220, 17222 which conforms to Internal Revenue Code Section 164

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 9.5 million returns, representing 15.3 million taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Dependent Exemption in Excess of Personal Exemption Credit

Description:
A nonrefundable personal exemption credit is allowed for all taxpayers and their dependents. The exemption credit for dependents is over three times greater than the exemption allowed for the taxpayer or their spouse. A temporary reduction of the dependent credit to the level of the personal credit was instituted for the 2009 and 2010 tax years.

Statutory Authority:
Revenue and Taxation Code Sections 17054, 17054.1, 17056, and 17733

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
In 2010, 6.2 million tax returns, representing 9.6 million taxpayers, claimed this credit.

Comparable Federal Benefit:
Federal law allows a personal exemption deduction, rather than a credit. The deduction amount for dependents is the same as that for taxpayers. Federal law also allows a child tax credit of $1,000 per child.

Personal Income Tax

Employee Business and Miscellaneous Expenses Deduction

Description:
Certain unreimbursed employee expenses, expenses of producing income, and other qualifying expenses may be deducted as a miscellaneous itemized deduction. Amounts for meals and entertainment are limited to 50 percent of the expense. The deduction is limited; only the amount in excess of 2 percent of the taxpayer's federal adjusted gross income may be deducted.

Statutory Authority:
Revenue and Taxation Code Sections 17072, 17076, 17201 which generally conform to Internal Revenue Code Sections 62(a), 67, 68, 162, 274

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 1.9 million returns, representing 2.9 million taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision is in general conformity with federal law.

Personal Income Tax

Exclusion of Benefits Provided Under Cafeteria Plans

Description:
The value of benefits received from an employer-sponsored cafeteria plan is not subject to tax. Cafeteria plans allow employees to choose between monetary compensation and qualified benefits, such as health insurance, life insurance, and dependent care benefits. If monetary compensation rather than benefits is selected, the amount is subject to tax.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 125

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Investment Income on Life Insurance and Annuity Contracts

Description:
The proceeds of a life insurance policy of a deceased person are generally excluded from the income of the beneficiary. Amounts received from a "living benefits" contract are also excluded from income, as are certain survivor benefits paid as an annuity to the beneficiary of a public safety officer killed in the line of duty.

Statutory Authority:
Revenue and Taxation Code Sections 17131, 17132.5, 24302, and 24305 which conform to Internal Revenue Code Section 101

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Head-of-Household and Qualifying Widow(er) Filing Status

Description:
Individuals who provide a home for a qualifying relative are eligible for lower tax rates than are available for single persons or a married person filing separately.

A qualifying widow(er) may claim a larger personal exemption in addition to the lower tax rates provided to heads-of-households. A qualifying widow(er) is an individual whose spouse died within the two prior years and has not remarried, and who provides the main home for an eligible dependent.

Statutory Authority:
Revenue and Taxation Code Section 18521 which is in partial conformity with Internal Revenue Code Section 2

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 2.3 million returns, representing 2.3 million taxpayers, used the head-of-household or qualifying widow(er) filing status.

Comparable Federal Benefit:
This provision is in partial conformity with federal law.

Personal Income Tax

Contributions to Self-Employed Retirement Plans Deduction

Description:
Self-employed persons are allowed a limited deduction when computing adjusted gross income for contributions to a self-employed retirement plan. Income generated by these contributions is also excluded from taxation until the assets are withdrawn.

Statutory Authority:
Revenue and Taxation Code Sections 17501, 17504, 17506, and 17507 which generally conform to Internal Revenue Code Sections 219, 401-404, 408, and 415

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Self-employed individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Contributions to IRAs Deduction

Description:
Taxpayers who receive compensation that is included in gross income and who are under 70-1/2 years of age may be allowed a deduction in computing adjusted gross income for contributions to their Individual Retirement Account (IRA). Earnings in IRAs are excluded from income until they are distributed to the taxpayer.

Statutory Authority:
Revenue and Taxation Code Sections 17201, 17203, 17501, 17504-09, 17551, and 17563.5 in conformity to Internal Revenue Code Section 219

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Unemployment Insurance Benefits

Description:
Benefits received from the state's unemployment insurance program are excluded from income for tax purposes. For privately-provided unemployment compensation, benefits up to the amount of prior contributions are not taxable, but benefits in excess of this amount are taxable.

Statutory Authority:
Revenue and Taxation Code Section 17083

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
In 2010, 1.8 million returns, representing 2.7 million taxpayers, claimed this exclusion.

Comparable Federal Benefit:
None

Personal Income Tax

Medical and Dental Expenses Deduction

Description:
Taxpayers may take an itemized deduction for qualified medical and dental expenses incurred on behalf of the taxpayer, the taxpayer's spouse, and/or the taxpayer's dependents. Only unreimbursed expenditures that exceed 7.5 percent of federal adjusted gross income are deductible.

Statutory Authority:
Revenue and Taxation Code Section 17201 which conforms to Internal Revenue Code Section 213

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 1.2 million returns, representing 1.8 million taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Miscellaneous Fringe Benefits

Description:
Certain fringe benefits are excluded from the income of the employees who receive them. This includes free special services such as free stand-by flights provided to airline employees, employee discounts for the purchase of company products, use of company equipment such as a company car, and "de minimis" fringe benefits such as the use of a work-site gym.

Statutory Authority:
Revenue and Taxation Code Section 17131 which partially conforms to Internal Revenue Code Section 132

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Deduction of Health Insurance Paid by Self-Employed

Description:
Self-employed individuals are allowed to deduct the cost of premiums paid for health insurance for themselves and their families. The deduction is limited to the taxpayer's net income earned from the trade or business for which the plan was established. This deduction can be taken regardless of whether the taxpayer itemizes their deductions.

Statutory Authority:
Revenue and Taxation Code Sections 17201, 17203, 17273 which generally conform to Internal Revenue Code Section 162

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
In 2010, 541,000 returns, representing 867,000 taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Exemption for Senior Citizens

Description:
Individuals over the age of 65 are eligible for an additional personal exemption credit.

Statutory Authority:
Revenue and Taxation Code Sections 17054 and 17054.1

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 2.2 million returns, representing 2.9 million taxpayers, claimed this exemption.

Comparable Federal Benefit:
Federal law allows taxpayers over the age of 65 to claim an additional standard deduction amount.

Personal Income Tax

Exclusion of Transportation-Related Fringe Benefits

Description:
Employees are allowed to exclude qualified compensation for employer-provided transportation benefits from income. These benefits include up to a specified amount for parking, transit passes, and ridesharing programs. The exclusion is limited to the fair market value of the benefits received.

Statutory Authority:
Revenue and Taxation Code Sections17090 and 17149 which generally conform to Internal Revenue Code Section 132

Sunset Date:
None

Legislative Intent:
This exclusion was intended to encourage ridesharing and transit use.

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Exclusion of Nonresident Military Pay

Description:
The military compensation of a person who is not domiciled or taxable in California, but attributable to a resident spouse because of community property laws is exempt from tax.

Statutory Authority:
Revenue and Taxation Code Sections 17140.5

Sunset Date:
None

Legislative Intent:
This provision was intended to ease administration and provide tax relief to military personnel.

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This issue is only relevant to state taxation.

Personal Income Tax

Renters' Credit

Description:
Low-income individuals who rent their principal residence are eligible for a credit of $60 if they are single, or $120 if married filing jointly or a head of household. To be eligible, the taxpayer's income cannot exceed specified levels.

Statutory Authority:
Revenue and Taxation Code Section 17053.5

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 2.0 million returns, representing 2.5 million taxpayers, claimed this credit.

Comparable Federal Benefit:
None

Personal Income Tax

Exclusion of Employer Contributions to Life Insurance Plans

Description:
An employer's contribution to an employee's group term life insurance policy is exempted from the employee's gross income for the first $50,000 of coverage.

Statutory Authority:
Revenue and Taxation Code Section 17081 which conforms to Internal Revenue Code Section 79

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Scholarship/Fellowship Income

Description:
Individuals may exclude from income any qualifying scholarships, fellowships, and tuition grants or reductions they receive that are used for qualified educational expenses.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 117

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion for Cancellation of Mortgage Debt

Description:
Income from the cancellation of debt (COD) arising from the discharge of a loan for the acquisition, construction, or substantial improvement of the principal residence of an individual taxpayer is generally included in gross income. This provision allows taxpayers to exclude from gross income discharge of a loan from an acquisition debt of up to $250,000 ($125,000 for married filing separate). The maximum amount of the loan eligible for exclusion is $800,000 ($400,000 married filing separate), and the exclusion is phased-out for discharged loans exceeding those amounts. The COD must occur on or after January 1, 2007 and before January 1, 2013.

Statutory Authority:
Revenue and Taxation Code Section 17144.5 which generally conforms to Internal Revenue Code Section 108

Sunset Date:
January 1, 2013

Legislative Intent:
None Specified

Beneficiaries:
Individuals

Number of Taxpayers/ Number of Returns
Not Available

Comparable Federal Benefit:
Conforms to in concept but is more restrictive than federal law.

Personal Income Tax

Exclusion of State Lottery Winnings

Description:
Winnings from the California State Lottery are exempt from tax.

Statutory Authority:
Government Code Section 8880.68

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 8,800 returns claimed this exclusion, which represented 13,000 taxpayers.

Comparable Federal Benefit:
None

Personal Income Tax

Exclusion of Compensation for Injuries or Sickness

Description:
Taxpayers may exclude from income the compensation received from workers' compensation, accident insurance, state disability insurance, and health insurance for injuries or illness. This also includes compensatory damages awarded in court settlements for injury or sickness, but not punitive damages. Also, employer reimbursement for expenses incurred for the care of an employee, an employee's spouse or dependents is excluded from tax.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 104

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Employee Child Care Benefits

Description:
Employees may exclude the amount of child and dependent care benefits received through an employer-sponsored payroll deduction program. The exclusion is the lesser of $5,000 per year, the amount of the taxpayer's earned income, or the amount of the taxpayer's spouse's earned income.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 129

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Meals and Lodging Furnished by Non-Military Employers

Description:
The value of meals and lodging furnished by non-military employers to an employee, spouse, or dependent is excluded from the income of the employee. The meals and lodging must be provided at the employer's place of business, for the convenience of the employer, and a precondition for employment.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 119

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Housing Credit 2010: First-time Buyer and New Home Credits

Description:
Under the Personal Income Tax Law, a taxpayer is allowed a tax credit equal to the lesser of $10,000 or 5 percent of the purchase price for qualified purchases of single-family residences. The credit must be claimed in equal amounts over three tax years. Unused credits may not be carried forward. In 2010, two credits are available: One for new-home purchases and one for first-time home buyers. The credits are capped at $100 million each.

Statutory Authority:
Revenue and Taxation Code Section 17059.1

Sunset Date:
The credits only apply to purchases made on or after May 1, 2010, and before August 1, 2011. The new-home purchase credit can only be used for enforceable contracts executed on or before December 31, 2010.

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 25,000 returns claimed the tax credit.

Comparable Federal Benefit:
This provision is similar but does not conform.

Personal Income Tax

Exclusion of Employer-Provided Educational Assistance

Description:
Individuals may exclude from income up to $5,250 of qualified educational assistance contributions made by their employer.

Statutory Authority:
Revenue and Taxation Code Section 17151 which partially conforms to Internal Revenue Code Section 127

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Student Loan Interest Deduction

Description:
Taxpayers may deduct interest paid on qualified education loans up to a maximum amount. This deduction is phased-out for taxpayers above a specified income level. In federal law, beginning in 2013, the AGI level at which the phase-out begins will be reduced. As California conforms to federal law, the state AGI phase-out levels will decline as well.

Statutory Authority:
Revenue and Taxation Code Section 17204 which conforms to Internal Revenue Code Section 221

Sunset Date:
None

Legislative Intent:
The intent of this provision was to make the expenses of higher education more affordable.

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
In 2010, 792,000 tax returns used this deduction. This represented 1.1 million taxpayers.

Comparable Federal Benefit:
None

Personal Income Tax

Child and Dependent Care Credit

Description:
A refundable credit is allowed for a portion of qualifying child or dependent care expenses paid for the purpose of allowing the taxpayer to be gainfully employed. The credit is a percentage of a parallel federal credit. The percentage decreases as income increases and is eliminated for taxpayers with AGI greater than $100,000. Chapter 14, Statutes of 2011 (SB 86) repealed the refundable portion of the Child and Dependent Care credit, effective January 1, 2011.

Statutory Authority:
Revenue and Taxation Code Section 17052.6 which generally conforms to Internal Revenue Code Section 21

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
In 2010, 459,000 returns (representing 650,000 taxpayers) claimed this credit.

Comparable Federal Benefit:
This provision generally conforms to federal law; however under federal law this credit is nonrefundable and does not have an income limit.

Personal Income Tax

Exclusion of Housing for Clergy

Description:
The rental value of a minister's dwelling is exempt from tax. Also, state-employed members of the clergy may allocate up to 50 percent of their gross salary to either the rental value of a home furnished to them or to the rental allowance paid to them to rent a home.

Statutory Authority:
Revenue and Taxation Code Sections 17131 and 17131.6 which partially conform to Internal Revenue Code Section 107

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision partially conforms to federal law.

Personal Income Tax

Moving Expense Deduction

Description:
An above-the-line deduction is allowed for certain unreimbursed moving expenses that are required to start a new job. The deduction is limited to the cost of transportation of household goods and personal effects, and travel (including lodging, but not meals) to the new residence.

Statutory Authority:
Revenue and Taxation Code Sections 17072 and 17076 which conform to Internal Revenue Code Section 217

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For 2010, 157,000 tax returns, representing 226,000 taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Exclusion of Income Earned on Section 529 (Scholarshare) Plans

Description:
Individuals may exclude earnings of Section 529 educational savings accounts (such as California's Scholarshare program) from income, provided that, upon withdrawal, the money from the accounts is used for qualified educational expenses.

Statutory Authority:
Revenue and Taxation Code Section 17140 which conforms to Internal Revenue Code Section 529

Sunset Date:
None

Legislative Intent:
This provision was intended to encourage taxpayers to invest for future higher education expenses to make the attainment of higher education possible for the greatest number of citizens of California.

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law.

Personal Income Tax

Exclusion of Foster Care Payments

Description:
Payments received from state and local governments, as well as tax-exempt foster care placement agencies, as reimbursements for the costs of caring for a foster child are excluded from income. The foster child must live in the taxpayer's home for the exclusion to apply.

Statutory Authority:
Revenue and Taxation Code Section 17131 which conforms to Internal Revenue Code Section 131

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Personal Income Tax

Casualty Losses Deduction

Description:
Taxpayers may deduct from gross income qualified casualty losses for which they were not compensated by insurance or other means. Casualty losses are losses caused by sudden, unexpected, or unusual events, such as floods, fires, storms, earthquakes, vandalism, theft, etc. Casualty losses are limited to losses that are greater than $100 per loss and where the sum of all casualty losses during a year is greater than 10 percent of federal adjusted gross income.

Statutory Authority:
Revenue and Taxation Code Sections 17131, 17207, and 24347.5 which generally conform to Internal Revenue Code Section 165

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals, incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
For 2010, 11,000 tax returns, representing 16,000 taxpayers, claimed this deduction.

Comparable Federal Benefit:
This provision generally conforms to federal law except that it is limited to losses sustained in California.

Personal Income Tax

Housing Credit 2009 New Home Credit

Description:
Under the Personal Income Tax Law, a taxpayer is allowed a tax credit equal to the lesser of $10,000 or 5 percent of the purchase price for qualified purchases. In 2009, the credit applied to new-home purchases only. The tax credit was capped at $100 million. The credit must be claimed in equal amounts over three tax years. Unused credits may not be carried forward.

Statutory Authority:
Revenue and Taxation Code Section 17059

Sunset Date:
The credit only applied for purchases made on or after March 1, 2009, and before March 1, 2010. The tax credit cap was reached on August 31, 2009.

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 6,700 returns claimed the tax credit.

Comparable Federal Benefit:
This provision is similar but does not conform.

Personal Income Tax

Limited Partnerships Investment Source Rules

Description:
The dividends, interest, or gains and losses from qualified investment securities of members of limited partnerships are exempted from taxation if the members reside outside California, and their only contact with this state is through a security dealer, broker, or an investment advisor located in this state.

Statutory Authority:
Revenue and Taxation Code Section 17955

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This is a state-only issue.

Personal Income Tax

Exclusion of Capital Gains on Small Business Stock

Description:
Fifty percent of the gain from the sale of qualified small business stock that is held for at least five years is excluded from income. For married couples, the exclusion is limited to $10 million or ten times the stock's basis. The limit for single persons is less.

Statutory Authority:
Revenue and Taxation Code Section 18152.5 which partially conforms to Internal Revenue Code Section 1202

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision generally conforms to federal law except for California purposes 80 percent of the corporation's payroll must be attributable to California and 80 percent of the corporation's assets have to be used in the active conduct of a trade or business in California for substantially all of the taxpayer's holding period.

Litigation:
In *Cutler vs. Franchise Tax Board* (Super. Ct. L. A. County, 2012, No. BC421864), the taxpayer raised the

Personal Income Tax

Exclusion of Capital Gains on Small Business Stock (continued)

issue of the constitutionality of California's qualified small business stock provisions. The trial court upheld the constitutionality of these statutes. However, on appeal, the Second District Court of Appeal reversed the trial court's determination and held that a provision of the qualified small business stock exclusion and deferral statutes is unconstitutional. The Franchise Tax Board determined that these statutes could not be salvaged from the offending provision. As such, as of September 10, 2013, there is no qualified small business stock exclusions or deferrals in California for any open or future years. There is, however, currently pending legislation that would recreate a limited exclusion.

Corporation Tax

Research and Development Credit

Description:
Businesses are allowed a credit for increased research expenditures over a four-year base period.

Statutory Authority:
Revenue and Taxation Code Sections 17052.12 and 23609 in partial conformity with Internal Revenue Code Section 41

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
For 2010, 4,700 personal income tax returns and 3,100 corporate tax returns claimed this credit.

Comparable Federal Benefit:
This provision partially conforms to federal law.

Corporation Tax

Single Sales Factor Election

Description:
An apportioning business which utilizes the four-factor formula for allocating net income which includes property, payroll, and sales, with sales being double weighted, is allowed to elect the allocation of net income for California tax purposes based on a single factor, 100 percent sales, starting with tax years beginning on or after January 1, 2011.

Statutory Authority:
Revenue and Taxation Code Sections 25128.5, 25135, and 25136

Sunset Date:
None

Legislative Intent:
None Specified

Beneficiaries:
Apportioning Businesses

Number of Taxpayers/Number of Returns:
Not Available

Comparable Federal Benefit:
None

Passage of Proposition 39:
Prior to the passage of Proposition 39, for taxable years beginning on or after January 1, 2011, multistate businesses could choose between two options for calculating their tax liability in California. Proposition 39 requires taxpayers, for taxable years beginning on or after January 1, 2013, to use the "single sales factor method," in which the percentage of their business income that is apportioned to California is based solely on the amount of their sales in California.

Corporation Tax

Water's Edge Election

Description:
Unitary multinational corporations are allowed the option of computing the income attributable to California on the basis of a water's-edge (domestic) combined report, as opposed to a worldwide combined report. Under the water's edge provision, a business may elect to compute its California tax by reference to only the income and factors of a limited number of entities. In general, these entities include United States incorporated entities, the United State activities of foreign incorporated entities, and the activities of various foreign entities that are included in the federal consolidated return. The election is generally for a seven-year period.

Statutory Authority:
Revenue and Taxation Code Sections 25110-25113

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Corporations

Number of Taxpayers/Number of Returns:
For 2010, 7,600 returns elected the water's edge method.

Comparable Federal Benefit:
Federal law uses a different method of determining income subject to tax, but it relies on the same information as the water's edge method.

Corporation Tax

Enterprise Zones and Similar Areas

Description:
Several tax incentives are available for certain types of expenditures or income earned in economically depressed areas of the state. These include areas designated as Enterprise Zones (EZs), Local Agency Military Base Recovery Areas (LAMBRAs), Targeted Tax Areas (TTAs), and Manufacturing Enhancement Areas (MEAs).
(1) Employers in these areas may be allowed a credit for a portion of the wages paid to qualified individuals.
(2) Employers may be eligible for a credit for the amount of sales and use taxes paid on certain purchases of machinery or parts.
(3) Employees in these designated areas may be eligible for an income tax credit of five percent of their qualified wages.
(4) Taxpayers may exclude the net interest from certain investments or loans to businesses in economically distressed areas.
(5) Businesses in designated areas are allowed to expense part of the costs of business equipment beyond normal expensing limits.

Statutory Authority:
Chapter 12.8 of the Government Code, and Revenue and Taxation Code Sections 17053.33 17053.34, 17053.45, 17053.46, 17053.47, 17053.7, 17053.74, 17053.75, 17268, 17276.2, 23612.2, 23622.7, 23622.8, 23633, 23634, 23645, and 23646

Sunset Date:
None

Corporation Tax

Enterprise Zones and Similar Areas (continued)

Legislative Intent:
These provisions were intended to help attract business and industry to the state, and more specifically to selected areas meeting various criteria, to help retain and expand existing state business and industry, and to create increased job opportunities for all Californians.

Beneficiaries:
Individuals and incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
In 2010, 29,000 personal income tax returns, and 5,600 corporate returns claimed these tax incentives.

Comparable Federal Benefit:
These provisions do not conform to federal law; however, federal law does provide similar tax incentives for designated empowerment zones and renewal communities.

Repeal of Enterprise Zones Provisions:
Chapter 69, Statutes of 2013, repealed provisions allowing for Enterprise Zones and similar development areas, effective January 1, 2014. The current development program will be replaced by a revenue neutral program which includes a hiring credit in high poverty area, a sales tax exemption for manufacturing equipment, and a new fund to attract and retain jobs in the state.

Corporation Tax

Like-Kind Exchanges

Description:
No gain or loss is recognized when business or investment property is exchanged solely for similar (like-kind) property. If, as part of the exchange, dissimilar property (not like-kind) or money is received, gain is recognized on the value of dissimilar property or money received, but a loss is not recognized.

Statutory Authority:
Revenue and Taxation Code sections 18031 and 24941 which conform to Internal Revenue Code Section 1031

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals, incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law

Corporation Tax

Subchapter S Corporations

Description:
Corporations that meet specified criteria are allowed to elect Subchapter S corporation status for tax purposes. An S corporation pays tax on corporate income at a reduced rate of 1.5 percent, except for financial institutions, which are subject to a 3.5 percent rate. An S corporation is not subject to the Alternative Minimum Tax but is subject to the applicable corporate minimum tax. Individual shareholders of an S corporation pay personal income taxes on their pro rata share of corporate income.

Statutory Authority:
Revenue and Taxation Code Sections 17087.5, 18006, and 23800-23813 which partially conform to Internal Revenue Code Sections 1361-1379

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and businesses

Number of Taxpayers/Number of Returns:
For the 2010 tax year, there were 432,000 S corporation returns reporting some income/losses.

Comparable Federal Benefit:
This provision generally conforms to federal law; however, no entity-level tax is imposed at the federal level.

Corporation Tax

Double-Weighted Sales Factor

Description:
Corporations with income derived from sources both within and outside California must apportion income using a formula that takes into account payroll, property, and sales factors. Prior to January 1, 1993, California applied a three-factor formula in which the payroll, property, and sales factors were equally weighted. After that date, California adopted a formula in which the sales factor is double-weighted. Corporations engaged in qualified agricultural, extractive, and financial business activities are exempted from the double-weighted sales formula, and must continue using the equally weighted three-factor formula to apportion their worldwide income.

A recent decision by the California Court of Appeal ruled that California cannot require multistate business entities to use the double-weighted sales apportionment formula, thereby upholding the plaintiff's claim that the single weighted sales factor contained in the Multistate Tax Compact (MTC) could not be modified. However, the repeal of the MTC in Chapter 37, Statutes of 2012, ensures that most taxpayers will not be allowed to use the equal weighted sales apportionment formula for 2012 and later years.

Statutory Authority:
Revenue and Taxation Code Section 25128

Corporation Tax

Double-Weighted Sales Factor (continued)

Sunset Date:
Election to use a "Single Sales Factor" for tax years beginning on or after January 1, 2011. (See p. 36).

Legislative Intent:
Not specified

Beneficiaries:
Corporations

Number of Taxpayers/Number of Returns:
In 2010, 80,000 returns applied the double-weighted sales formula.

Comparable Federal Benefit:
None

Corporation Tax

Tax-Exempt Status for Qualifying Corporations

Description:
A minimum tax of $800 is generally imposed on corporations subject to the corporation franchise tax. However, corporations in their first year of business are generally not subject to the minimum tax.

Statutory Authority:
Revenue and Taxation Code Section 23153

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Corporations

Number of Taxpayers/Number of Returns:
In 2010, 193,000 returns claimed this exemption.

Comparable Federal Benefit:
None

Corporation Tax

Accelerated Depreciation of Research and Experimental Costs

Description:
Research and experimental expenditures may be deducted currently, or may be amortized over a 60-month period at the election of the taxpayer.

Statutory Authority:
Revenue and Taxation Code Sections 17201 and 24365 which conform to Internal Revenue Code Sections 59 and 174

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Corporation Tax

Film Credit

Description:
Provides a nonrefundable franchise or personal income tax credit to qualified taxpayers who produce a motion picture in California or relocate a television series or independent film to California. The credits are allocated and certified by the California Film Commission. The annual allocation of credits is capped at $100 million.

Statutory Authority:
Revenue and Taxation Code Sections 17053.85 and 23685

Sunset Date:
July 1, 2017

Legislative Intent:
None specified

Beneficiaries:
Corporations and Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Corporation Tax

Low-Income Housing Credit

Description:
A tax credit is allowed for a portion of the costs of investing in qualified low-income rental housing. The aggregate amount of the credit is capped, and specific credits are allocated to applicants by the California Tax Credit Allocation Committee. Credits are allocated to developers who, in turn, sell them to investors in exchange for project funding. All projects receiving the California credit must also receive the parallel federal credit.

Statutory Authority:
Revenue and Taxation Code Sections 17058 and 23610.5 in conformity with Internal Revenue Code Section 42

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals, unincorporated and incorporated businesses

Number of Taxpayers/Number of Returns:
For the 2010 tax year, 400 personal income tax returns and 32 corporation tax returns claimed this credit.

Comparable Federal Benefit:
This provision conforms to federal law.

Corporation Tax

Hiring Credit

Description:
Provides that a qualified employer can take a credit against their tax of $3,000 for each increase in qualified full-time employees during the tax year. The total allowable credits for all tax years is $400 million.

Statutory Authority:
Revenue and Taxation Code Sections 17053.80 and 23623

Sunset Date:
Remains in effect until December 1 of the calendar year after the year in which the cumulative credit limit of $400 million has been reached. As of August 31, 2013, the cumulative amount of credit generated on personal income tax and corporation income tax returns totaled $180 million.

Legislative Intent:
None Specified

Beneficiaries:
Small businesses

Number of Taxpayers/Number of Returns:
Not Available

Comparable Federal Benefit:
None

Corporation Tax

Employee Stock Ownership Plans (ESOP)

Description:
Employers that provide employee stock ownership plans are allowed a deduction for dividends paid to an ESOP, when those dividends are paid by the ESOP to participants or are used to retire ESOP debt. Also, capital gains on the sale of stock to an ESOP are deferred if the proceeds are used to acquire a similar type of security.

Statutory Authority:
Revenue and Taxation Code Sections 18042 and 24601-24612 which generally conform to Internal Revenue Code Sections 401-424 and 1042

Sunset Date:
None

Legislative Intent:
This provision was intended to broaden employee ownership of California businesses, as well as prevent undue recordkeeping burdens and costs of compliance by being out of conformity with federal law.

Beneficiaries:
Incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Corporation Tax

Percentage Depletion of Mineral and Other Natural Resources

Description:
Taxpayers may deduct a fixed percentage of gross income for resource depletion, which is generally more than the deduction that would be allowed under the normal cost-depletion method. The percentage depends upon the type of resource, and the depletion allowance cannot be more than 50 percent of the taxpayer's related net income prior to the depletion deduction, or more than 100 percent for oil and gas properties.

Statutory Authority:
Revenue and Taxation Code Sections 17681 and 24831 which conform to Internal Revenue Code Sections 611, 612, 613, and 613A

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Corporation Tax

Credit Union Treatment

Description:
Credit unions are exempt from state income and franchise taxes. Since credit unions are nonprofit, membership organizations, only their "nonmember" income (such as investment income on excess deposits or miscellaneous sources of income, such as ATM fees charged to nonmembers) would be taxed in the absence of this exemption.

Statutory Authority:
Revenue and Taxation Code Section 23153

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Non-profit cooperative associations

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Corporation Tax

Expensing of Timber Growing Costs

Description:
Expenses of growing timber fall into three categories. Some must be capitalized and recovered through cost depletion as the timber is cut. Some are fully deductible. Others may be used only to offset the proceeds of sale.

A. Capitalized costs – Preparation of the site including brush removal, cost of seedlings, and labor and tool expense, including depreciation of equipment used in planting, are capital expenditures and are added to the basis of the timber. These costs are recovered under cost depletion as the timber is cut.

B. Fully deductible – Expenditures incurred for silvicultural practices, such as weeding, cleaning, or noncommercial thinning, are currently deductible business expenses. Reforestation expenses (on property located in California) of up to $10,000 on any one timber property may be expensed in any year, and the balance of reforestation expenses above this amount may be amortized for 84 months.

C. Offset proceeds of sale –The cost of land improvements, such as road grading, ditching, and firebreaks, are capitalized into the basis of the land; they are not added to the basis of the timber and are recovered as an offset against the sales proceeds when the land is sold. Expenses related to the sale of the timber must be offset against the sales proceeds.

Corporation Tax

Expensing of Timber Growing Costs (continued)

Statutory Authority:
Revenue and Taxation Code Sections 17201, 17278.5, 17681, 24343, 24373.2, and 24831 which conform to Internal Revenue Code Sections 162, 194, and 611

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Corporation Tax

Reforestation

Description:
Under this program, taxpayers can amortize over seven years up to $10,000 per year of qualifying reforestation expenditures. These expenditures include the direct costs of forestation and reforestation, such as site preparation, seeds, labor and equipment.

Statutory Authority:
Revenue and Taxation Code Section 17278.5 and 24372.5 which conforms to Internal Revenue Code Section 194

Sunset Date:
None

Legislative Intent:
The program's intent is to speed up the reforestation of depleted timberlands.

Beneficiaries:
Individuals and incorporated and unincorporated businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This treatment conforms to federal practice, except that the benefit is limited to reforestation activities located in California.

Sales and Use Taxes

Food Products

Description:
Sales of food for human consumption are not generally subject to the sales and use taxes. However, this exemption does not generally include hot prepared food, food sold and consumed at or on the seller's facility, or food sold for consumption where there is an admission charge.

Statutory Authority:
Revenue and Taxation Code Section 6359

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Gas, Electricity, and Water

Description:
Gas, electricity, and water delivered through mains, lines, or pipes are exempt from tax. Water sold in bulk quantities of 50 gallons or more and liquefied petroleum gas delivered for use in a residence is also exempt.

Statutory Authority:
Revenue and Taxation Code Section 6353

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Prescription Medicine

Description:
Medicine that is prescribed for an individual and furnished by a registered pharmacist is exempt from tax. This exemption also includes such things as orthotic and prosthetic devices and parts.

Statutory Authority:
Revenue and Taxation Code Sections 6369 and 6369.1

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Animal Life, Feed, Seeds, Plants, Fertilizer, Drugs, and Medicines

Description:
Sales of animals which are generally used for human food, as well as the feed and drugs used for those animals is exempt from tax. Also, seeds and plants that are normally used for human food and fertilizer for those plants are exempt from tax.

Statutory Authority:
Revenue and Taxation Code Section 6358

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Candy, Confectionery, Snack Foods, and Bottled Water

Description:
Candy, gum, confectionery, snack foods, and bottled water are not subject to the sales and use taxes.

Statutory Authority:
Revenue and Taxation Code Section 6359

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Custom Computer Programs

Description:
The transfer of custom computer programs, other than a basic operational program, and separate charges for custom modifications to existing prewritten programs are excluded from the definition of "sale." Therefore, these computer programs are not subject to the sales and use taxes.

Statutory Authority:
Revenue and Taxation Code 6010.9

Sunset Date:
None

Legislative Intent:
This provision was intended to provide an incentive for the development and utilization of computer software.

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Fuel Sold to Common Carriers

Description:
Sales of fuel and petroleum products to air common carriers for international flights are exempt from tax.

Statutory Authority:
Revenue and Taxation Code Section 6357.5

Sunset Date:
None

Legislative Intent:
This provision was intended to allow domestic fuel producers to compete equally with foreign producers, who are exempt under federal law from state sales taxes on airline fuel used in international travel.

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Farm Equipment and Machinery

Description:
Sales of farm equipment, machinery, and their parts are exempt from the 5 percent state sales and use tax when sold to qualified persons engaged in the business of producing and harvesting agricultural products.

Statutory Authority:
Revenue and Taxation Code 6356.5

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
In 2011-12, 14,740 returns claimed this exemption.

Comparable Federal Benefit:
None

Sales and Use Taxes

Diesel Fuel Used in Farming and Processing

Description:
Sales of diesel fuel are exempt from the 5 percent state sales and use tax when that fuel is consumed during the activities of a farming or food processing business. Farming business includes transporting farm products to the marketplace.

Statutory Authority:
Revenue and Taxation Code 6357.1

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
In 2011-12, 882 returns claimed this exemption.

Comparable Federal Benefit:
None

Sales and Use Taxes

Water Common Carriers

Description:
The sale of fuel and petroleum products is exempt when sold to a water common carrier for immediate shipment outside this state.

Statutory Authority:
Revenue and Taxation Code Section 6385

Sunset Date:
January 1, 2024

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Subscription Periodicals

Description:
Sales of periodicals that appear at stated intervals of at least 4 times per year but not more than 60 times per year, and their ingredient and component parts are exempt from the sales and use taxes when the periodical is sold by subscription and delivered by mail or common carrier.

Statutory Authority:
Revenue and Taxation Code Section 6362.7

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Rental of Linen Supplies

Description:
A person leasing linen supplies and similar articles who furnishes the recurring service of laundering or cleaning such linen supplies is the consumer of the property provided and tax applies to the purchase of the items.

Statutory Authority:
Revenue and Taxation Code Sections 6006 and 6010

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Teleproduction and Post Production Equipment

Description:
Sales of teleproduction and post production equipment to businesses primarily engaged in teleproduction and post production activities is exempt from the 5 percent state sales and use tax when that property is used 50 percent or more in those activities.

Statutory Authority:
Revenue and Taxation Code Section 6378

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
In 2011-12, 2,337 returns claimed this exemption.

Comparable Federal Benefit:
None

Sales and Use Taxes

Treatment of Vending Machine Sales

Description:
Sales through vending machines are subject to tax on 33 percent of the sales price. Also, vending machine operators are considered the consumer of food products sold below a specified price through a vending machine.

Statutory Authority:
Revenue and Taxation Code Sections 6359.2 and 6359.4

Sunset Date:
None

Legislative Intent:
This provision was designed to simplify tax auditing procedures and provide uniformity in the taxation of vending machine sales. The percentage was set at 33 percent because that was deemed the average statewide percentage of vending machine sales that were subject to tax.

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Alternative Energy

Description:
Authorizes the California and Advanced Transportation Financing Authority to approve a sales and use tax exemption on the purchase of tangible personal property that is used for the design, manufacture, production, or assembly of advanced transportation technologies or alternative energy products.

Statutory Authority:
Public Resources Code Section 26003

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Meals Furnished by Institutions

Description:
Meals furnished by institutions such as health facilities, residential care facilities for the elderly, drug treatment facilities, community care facilities, and alcohol recovery facilities are not subject to tax.

Statutory Authority:
Revenue and Taxation Code Section 6363.6

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals and businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Aircraft and Component Parts Sales

Description:
The sale of aircraft and component parts to common carriers, foreign governments, or nonresidents is not subject to tax.

Statutory Authority:
Revenue and Taxation Code Section 6366

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Individuals, businesses, foreign governments

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Leases of Motion Picture and Television Films and Tapes

Description:
Leases of motion pictures, animated motion pictures, and television films and tapes are not considered sales. The lessor is considered the consumer of such tangible personal property it leases.

Statutory Authority:
Revenue and Taxation Code Sections 6006 and 6010

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Motion Picture Production Services

Description:
Transfers of any qualified motion picture or any interest or rights therein prior to the date that the qualified motion picture is exhibited or broadcast to its general audience and the performance of qualified motion picture production services is not subject to tax.

Statutory Authority:
Revenue and Taxation Code Section 6010.6

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Sales and Use Taxes

Printed Advertising

Description:
Sales of printed material which is substantially advertisements for good and services are exempt from tax if the material is (1) printed to the special order of the purchaser, (2) mailed or delivered by the seller, the seller's agent, or a mailing house, and (3) delivered to another person at no cost to that person.

Statutory Authority:
Revenue and Taxation Code 6379.5

Sunset Date:
None

Legislative Intent:
This provision appears to have been intended to assist the California printing industry increase its share of the direct mail and catalog market.

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Fuel Taxes

Aircraft Jet Fuel Used by Common Carriers and Military

Description:
Air common carriers engaged in the business of transporting persons or property for compensation under certification of public necessity by the state, national, or any foreign government, persons engaged in the business of constructing or reconstructing aircraft, and the United States armed forces are exempt from the tax on aircraft jet fuel.

Statutory Authority:
Revenue and Taxation Code Section 7389

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses and U.S. government

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This provision conforms to federal law.

Fuel Taxes

Fuel Used by Transit Districts and Schools

Description:
Diesel fuel purchased by certain public transit agencies, school districts, and common carriers is taxed at a reduced rate of 1-cent-per-gallon.

Statutory Authority:
Revenue and Taxation Code Sections 8655, 60039, and 60502.2

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Government agencies and businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
Federal law exempts these sales.

Cigarette and Tobacco Products Tax

Sales to Government Agencies

Description:
Sales of cigarettes and tobacco products by or through the United States military exchanges, commissaries, ship's stores, or the United States Veterans' Administration are not subject to the cigarette tax. Deliveries of cigarettes or tobacco products to a veterans' home of this state or a hospital or domiciliary facility of the United States Veterans' Administration for the use of the veterans are also not subject to tax.

Statutory Authority:
Revenue and Taxation Code Sections 30102 and 30105.5

Sunset Date:
The exemption for sales by or through military installations will sunset on the first calendar day beginning more than 60 days after federal law is changed to allow state taxation of military sales.

Legislative Intent:
This exemption was intended to provide a tax incentive for the United States Armed Forces and the United States Veterans' Administration to purchase cigarettes or tobacco products in this state, as opposed to purchasing cigarettes outside this state for purposes of avoiding the tax. The exemption was also intended to provide tax relief to various members of the United States Armed Forces by enabling them to acquire their cigarettes and tobacco products at reduced costs.

Beneficiaries:
Individuals

Cigarette and Tobacco Products Tax

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
This exemption is very similar to one contained in federal law.

Property Tax

Computer Programs

Description:
Computer programs other than basic operational programs which are necessary for the fundamental functioning of the computer are exempt from tax. The storage media for the programs are, however, taxable.

Statutory Authority:
Revenue and Taxation Code 995

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

Property Tax

Fixtures Excluded From the Supplemental Roll

Description:
Fixtures that are valued as a separate appraisal unit from the structure on the property are exempt from supplemental property tax assessment. Fixtures are personal property such as equipment that are affixed to and incorporated into real property.

Statutory Authority:
Revenue and Taxation Code Section 75.5

Sunset Date:
None

Legislative Intent:
Not specified

Beneficiaries:
Businesses

Number of Taxpayers/Number of Returns:
Not available

Comparable Federal Benefit:
None

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